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FIELD HEARING ON THE HOUSING INDUSTRY (FALL RIVER, MASS.)

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COMPLETED

HEARING

BEFORE THE

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

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FIELD HEARING ON THE HOUSING INDUSTRY (FALL RIVER, MASS.)

FRIDAY, APRIL 2, 1982

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING
AND COMMUNITY DEVELOPMENT,
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS,
Fall River, Mass.

The subcommittee met, pursuant to call, at 11 a.m., in room C-111-Auditorium, Bristol Community College, Fall River, Mass; Hon. Henry B. Gonzalez (chairman of the subcommittee) presiding.

Present: Representatives Gonzalez and Frank.

Chairman GONZALEZ. The subcommittee will please come to order. The purpose of our hearing is to continue the field hearings on the Subcommittee on Housing and Community Development, which in the past several months have taken use to the tin sheds and tarpaper shacks of migrant workers in eastern Maryland, Delaware, Virginia, across the lower tier of our country through Texas and over to California and ended up in San Francisco. In the early part of January, the subcommittee walked through the depressing and inspiring places in the great Central Valley of California, the high plains of Texas and the poor neighborhoods of my own home city of San Antonio, Tex.

Now we find ourselves in Massachusetts, a place that has a special place in my heart. Massachusetts has a history that is very different from that of my part of Texas in the nature of its development, but the history of San Antonio is just as long as that of Boston. San Antonio was a colonial outpost centuries ago, the base of the empire that was known as New Spain. There is a special kinship between communities that are as old as ours, and I am delighted and happy and priviliged to be here, and very particularly, in the company of truly a great American and fellow Congressman, Barney Frank.

I say that most sincerely, and I really consider it a personal privilege. Barney Frank is one of the most remarkable persons that I have ever known or met. He is one of the most positive and productive Members not only in the entire Congress, but particularly in our committee. The Subcommittee on Housing and Community Development is the largest committee or subcommittee in the whole Congress, 33 members. Positions or appointments to this subcommittee are very intensely fought for so that when Barney Frank comes in and gets on it right away, let me tell you, he had to have something on the ball and we know why now.

In just a very few months, Congressman Frank has established himself as a man of ideals and a Congressman of vast energy and resourcefulness. No Member of Congress has had greater impact, acquired greater respect or been a better contributor than Barney Frank and I am proud to be with him and serve with him.

In our field hearings in San Francisco, the subcommittee concentrated on the problems of first-time home buyers, and that will be our focus today, particularly on Mr. Frank's field.

In this decade, about 40 million Americans will reach age 30, which is the age at which family formation takes place and people start looking for homes. This will be the greatest number of people seeking housing in our industry, and it means that we must produce something like 2.4 million new homes a year in order to meet the demand. This year, even under the most optimistic assumptions, housing production will be only about 1 million units. It is far more likely that production will be about 800,000 units, only about a third of what the country needs.

Last month, the sales rate of homes dropped to its lowest level since statistics have been gathered. The reason for this startling paradox, low production and historically low sales in the face of unprecedented demand is simple, hardly anybody can afford to buy a new home.

As an example, in San Antonio, our hometown, the average price is around $50,000. Still, that is lower than is the case for most of the country, still it takes an income of about $45,000 a year to qualify for a mortgage on that typical home, and monthly payments of almost $900. The median income in San Antonio is less than half of what it takes to qualify for a new home.

Across the country less than 1 person in 10 has the income to buy a home. First-time buyers have two problems: First, the problem of raising enough money to make a downpayment. Second, and usually much worse, there is the problem of affordability, the problem of meeting the monthly payments that are dedicated to stratospheric interest rates.

The Reagan administration has proposed to do nothing to help people afford homes. That is, we are confronted with not only zero, but negative budgetary requests as of February 8, which, in effect, would mean if we adopted them, the phasing out or zeroing out of most of the Federal level, if not at all, assisted housing programs and the phasing out of some secondary mortgage institutions that, of course, have been created specifically for the purpose of home production and home affordability. We are confronted with this at the same time that we have this burgeoning demand. It has thus far produced nothing to bring an end to the longest and deepest crisis in home construction since the Great Depression. What is worse, the Reagan administration will not even respond to suggestions that are put before it. Its only policy is to kind of hunker down and wait until prosperity shows up. I like to picture it as somewhere around the Laffer curve.

Congressman Frank and I have introduced bills that are aimed at stimulating housing construction by making homes affordable. Both our bills would do this by providing an interest subsidy to moderate income families, a subsidy sufficient to bring interest costs down to about 9 percent. The subsidy would be temporary,

and would be recaptured on the sale of the home. The basic mechanisms have been tried and proven and have been workable.

We are concerned about making housing affordable. There are many other concerns that we face on the Housing Subcommittee, but our focus today is on the problem, of making housing affordable for first-time buyers, which is the key to stimulating production.

Congressman Frank, as I say repeat, has offered outstanding, brilliant ideas, stimulating ideas and he has worked closely with the subcommittee in developing his proposals. We are anxious to see what the situation is like here in Fall River and surrounding areas, because we know that the world looks different here than it does, perhaps, in the Rose Garden.

Before we proceed, I was going to ask Congressman Frank, in fact, turn over the mike to Congressman Frank, but I thought it would be proper to introduce our valuable staff members who are here from the subcommittee staff level. On my left, immediate left is Mr. Gerald McMurray who is a staff director of the Subcommittee on Housing and Urban Development. He might look very young, you Irish folks know about that, but he has a lot of experience. He has served as staff director for this committee some 15½ years, with his third subcommittee chairman in my person. To his left and at the left end of the table here, to my left is another distinguished member of the staff representing the minority side, it is Mr. Robert Ruddy, who also has a long background of experience on the congressional level dating back to the time when he came from the great Dakota area and worked in the Capitol with a U.S. Senator at the time, but has also served as Deputy Assistant Secretary to HUD [Department of Housing and Urban Development]. I am very proud of these staff members. These gentlemen work very hard and are very distinguished and they are capable in their knowledge. We also have Ms. Emily Hightower, who is the young lady there. She is the one that really does all the work that makes it possible for us to have these field hearings. There is a lot of work involved, as you can imagine, and I'm going to ask Barney when the time comes for him to introduce the staff members he has here present, but without any further ado, it is a privilege to turn the mike over to this distinguished Congressman and for any statement he cares to make or to conduct the business, whatever he wants.

STATEMENT OF HON. BARNEY FRANK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. FRANK. Thank you, Mr. Chairman. I want to express my appreciation to the chairman of the subcommittee and the chairman of the full committee, my neighbor, Fernand St Germain, just across the State line, for bringing this hearing here. I just want to say for a minute what an important role I think hearings such as this make. We confronted a sitution 6 months ago where people in the housing industry, whether they were bankers who make loans, or realtors, or homebuilders, or people in the building trades, or people who had to buy homes, understood the depth of the housing crisis in America. But it wasn't getting through to Washington.

This simply was a set of ideological blinders that were handed out by David Stockman at the Office of Management and Budget that kept people from understanding what a serious housing crisis this country has. I think it is to the credit of Chairman St Germain and Chairman Gonzalez that a series of field hearings were developed which have played a crucial part in changing that perception.

Today, I am pleased to be able to say that I think that there is in Washington—certainly in the Congress and to a growing extent in pockets in the executive branch—a recognition that we have got a terrible crisis on our hands in housing. The purpose of this hearing and others that will be held in other parts of the country is two-fold. One is continue to gather the evidence to make that point. Second, it is to deal with people who have expertise. Our witnesses here include some people with a general sense of the needs of the public and also people who have some specific expertise in the housing area. As Chairman Gonzalez has indicated, given this recognition of the problem, by a month from Friday, we expect that this very subcommittee, chaired by Mr. Gonzalez, will be drafting a specific piece of legislation to meet the housing crisis embodying some of what we will be talking about as well as some other aspects. So I want to assure everyone that we are not here for an academic exercise, although in college I certainly don't want to say anything against academic exercises, but it would not suit any purpose to bring the committee Chair up here for academic exercises.

This is part of a very serious problem of drafting legislation. These hearings create the recognition in Washington that ought to be created. This particular hearing will help give us the specific information we need to draft a program that is workable.

The depth of the housing crisis was missed in Washington. There were people who thought—and David Stockman was really one of them—that housing somehow was unrelated to the economy. They treated housing as if it was some kind of a luxury good, a candy bar almost, or an evening at the movies, which they did not see as connected to the overall economy. What has now become very clear is, of course, that housing is in a more depressed state than it has been at anytime in our memory. You have to go back to the days of World War II when there was no production available for civilian purposes to get to a lower number of housing starts in this country.

What we have seen is that this also contributes enormously to the terrible economic crises we have. We are facing the worst recession that we have faced, again, since the Great Depression. By a full range of measure what we are finally getting acroes is that if you sacrifice the building industry, you can throw building trades people and realtors and homebuilders out of work and then have the spinoff effect. The furniture factory shuts down, textiles slow down when they try to produce rugs and drapes, and appliance sales slow down. Housing has a central economic role to play.

It also has a very important social role to play. There are a number of areas in which one leads the world in rhetoric but does little about it. One of those is in concerns of the family. There are a lot of politicians in Washington lamenting about family. I think trying to protect and advance family values is a very important national goal, but I think we owe people the specifics, not just rhetoric. One of the greatest problems that young Americans face today

when they are at the stage of family formation, when they are married, they have children, to begin that family process is that many of them can't afford a decent place to live. We are pricing young Americans out of the housing market. High interest rates that are none of their faults are denying them a chance to participate in what they have been told was the American dream. I think it would be a very grave economic and social error if we were to say to the current generation of people in their twenties, "Forget about owning a home, forget about the kind of American dream that you were told that your parents had."

One of the purposes of this hearing and of this subcommittee is to see that the chance to own a home doesn't end today or doesn't become the sole prerogative of the rich. High interest rates have priced the greater majority of the people out of the home-buying market. I think one of the most important goals of this subcommittee is to return Americans to the home-buying market.

Let me just add a last point. We are going to be talking about how much is this going to cost. It's been a lot in the news lately about the distribution of cheese. Given we have all this cheese, it is a good idea to give it away, but let's be clear where that cheese came from. That cheese came about because the U.S. Government spent more than $2 billion a year of taxpayers' dollars to subsidize dairy farmers. We are asking to spend $2½ billion this year on the MX missile and the Government can't even tell us where they want to put it.

There are billions of dollars being wasted by this Federal Government. The tax bill adopted last year gave billions of dollars in tax breaks to the oil industry and other entities. We waste billions in unnecessary military spending, agricultural subsidies, and other pork barrel products.

We can put together a housing program that will return the average American to the homebuying market. I am determined that we are going to do that and I am very proud that I have a chance to work with my distinguished colleague, Henry Gonzalez, who I think has brought forward from this committee a package of housing legislation that will be something that this country can be proud of. Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you very much.

We have as our first witness this morning the Honorable Stephen J. Karol, the State representative to the Massachusetts Legislature from Attleboro. Mr. Karol.

Mr. FRANK. I might also add that Mr. Karol serves on the Massachusetts House Committee on Housing and Urban Development, so he speaks here with some real expertise about what can be done on the State level and what national policies are needed.

STATEMENT OF HON. STEPHEN J. KAROL, STATE REPRESENTATIVE, ATTLEBORO, MASS.

Mr. KAROL. Thank you very much, Congressman and Mr. Chairman and welcome to Massachusetts. It is a pleasure for us to have you with us today and I must say, before beginning my prepared remarks, I would like to concur in your sentiments relative to Congressman Frank as a legislator. I served with him 2 years in the

Massachusetts House of Representatives and we dearly miss him, although we are delighted that he is now in Washington. Now, Congressman Frank is playing a larger role in the formulation of national policy, particularly in the area of housing and I must say that we realize at this time of year as we enter springtime how we miss him. While he was in the legislature, he was the star second baseman of the House softball team and we've not been able to replace him because as much as we search, we cannot find an adequate left handed second baseman who can hit to the opposite field as Congressman Frank when we was with us.

I do appreciate the opportunity to appear before you this morning to share my thoughts on the housing crisis in Massachusetts and, also, to voice my support for Congressman Frank's proposal to provide mortgage assistance to first-time home buyers.

Here in Massachusetts, we were fortunate for several years to avoid a housing recession as deep as in many other sections of the country, primarily because of our strong and steady economic growth. However, in the past 2 years that recession has grown deeper and deeper in this State, where now the Amercian dream of owning a home is, for most of our citizens, just that ,a dream. The strict and misguided monetarist policies pursued by the Reagan administration have driven interest rates on conventional mortgages into the high teens. These exorbitant rates, coupled with an average purchase price of $60,000 to $70,000 for a single-family home have priced thousands upon thousands of Massachusetts families out of the housing market.

In 1981, the volume of sales of homes prices under $100,000 decreased by more than 15 percent from the 1980 volume. As distrubing as that statistic is, consider that during the same period the sales volumes of homes in the $25,000 to $35,000 range, that segment of the housing market primarily attracting young, first-time buyers, decreased by an astounding 70 percent.

In the last few years, the Massachusetts Legislature has enacted laws providing innovative methods for home financing. However, their effect has been mitigated by the President's obsession with tight-money policy. This year or the end of the year we will be allowing Massachusetts banks to offer variable rate mortgages, rollover mortgages, graduated payment mortgages, and the so-called interest only mortgages, whereby the mortgagor repays no principal until after the tenth of amortization. These alternative financing measures certainly have made it easier for some families to purchase homes. However, nothing other than the type of mortgage subsidization proposed by Congressman Frank can effectively reopen the housing market to the average American family.

Consider, as an example, wanting to purchase a home priced at roughly the statewide average. As you know, lending institutions normally require that the cost of principal, interest, and taxes not exceed 28 percent of gross annual income. The average home purchased in Massachusetts, conventionally financed, would result in a $50,000 mortgage, most likely with a 30-year amortization. At a 12-percent rate, monthly payments of principal and interest would be $514.

But where can you find a bank with a 12-percent rate? Realistically, the rate would be about 17 percent, with a monthly payment

of $713, nearly $200 per month greater than the 12-percent mortgage. Assuming property taxes of 2½ percent of market value, as is the case in most Massachusetts communities, the total monthly cost for principal, interest and taxes would approach $900 and raise the minimum gross annual income under the 28-percent rule to approximately $37,000, 38 percent higher than the mimimum requirement for a 12-percent mortgage, and far beyond the means of most people in Massachusetts.

My colleagues in the legislature and I find that our offices are receiving more and more calls from constituents, especially young, newly married couples, asking where they can obtain low-interest mortgages so they, like their parents before them, can realize the now elusive dream of owning a home. Unfortunately, we on the State level, due largely to Federal policy, have not been able to offer enough assistance.

I find it ironic that our housing recession has deepened because of the economic policies implemented by an administration supposedly committed to economic recovery. And how ironic it is that a President who professes to revere the institution of the family is, by his administration's actions, making homeownership possible only for the wealthy or for families in which both parents have to work full-time jobs just to meet the mortgage payments every month, denying themselves and their children the time they all desire and deserve to spend together.

The passage of Congressman Frank's bill will give thousands of young Americans the opportunity to raise their children in their own homes, as well as providing a much needed and long overdue stimulus to the beleaguered construction and real estate industry and to our mortgage-lending institutions, many of which are on the verge of bankruptcy.

Mr. Chairman, in closing, I want to urge you to bring back to your colleagues in the Congress the message that the people of Massachusetts wholeheartedly support Congressman Frank's First-time Homeowners Opportunity Act. I hope that you will press for swift passage of this legislation so that in the not-too-distant future young Americans will be able to make their dreams come true. Thank you.

Chairman GONZALEZ. Thank you very much, Mr. Karol, for your very valuable and important message. We hope to initiate as soon as possible after the return of the members from the Easter recess the markup on our main legislative vehicle, which is the bill that I have introduced and that is every single member of the majority side of the subcommittee has cosponsored. At that markup, we intend to have the Frank bill before us plus two other Congressmen that appeared before our committee, three in fact, that have also introduced similar legislation, but some aspects of it have some bearing on this main vehicle which we call the 1982 Housing and Urban Development Act. So that the chances are that the substantial portion of Mr. Frank's bill is going to be incorporated in this main vehicle. This is one of the reasons why the hearing today is so important.

I have always been under the impression that Massachusetts is one of the States that has pioneered the State housing agencies of a very substantial and apparently very successful nature. In your

enabling legislation, what is the basic finance mechanism that the State law provides for?

Mr. KAROL. We have created in Massachusetts, I believe during Congressman Frank's tenure in the legislature, the Massachusetts Home Mortgage Finance Agency, commonly lettered as MHMFA, and that has been an authority or agency which is involved in bonding to provide low-interest mortgages. It has been of some help, but we find in the last several years, as this housing recession has deepended, that it simply cannot meet adequately the demands of thousands of young families in this State who want to purchase homes and coupled with the high rates, particularly as the prices of homes has increased, the initial downpayment required has significantly increased and I think it is simply we are in a situation where young families, even with the assistance we are trying to help, are still finding it very, very difficult starting out to purchase a home.

Chairman GONZALEZ. Is the agency you addressed yourself to, is this a separate and independent agency from, say, the State housing agency?

Mr. KAROL. This is an agency created specifically to facilitate the purchase of homes. We have an income cap, which has just recently increased. We have a maximum sale price or a maximum price for the mortgage, so it is pretty much an independent authority with various officials, Cabinet Secretaries and other officials appointed to the authority.

Chairman GONZALEZ. Does it have any particular general funds source of money or is it revenue bonds?

Mr. KAROL. It is revenue bonds.

Mr. FRANK. I would just add, Mr. Chairman, on revenue bond authority, the recommendations of the Democratic Caucus Housing Task Force, which you chaired, will be helpful to the agency. As you say, the specific recommendations have been an effort by the administration to kind of cut out the ability of States to use revenue bonds for home mortgages and the recommendation of our Caucus Task Force was to loosen up those restrictions in a way that would be helpful to this particular kind of agency.

I'd like to follow up a little bit and say I am delighted to welcome an old friend and colleague who has played quite a very important role in the legislature. Mr. Karol is one of the most creative legislators and that is why I am glad to have him here to ask him a very important question. We are told by David Stockman and by the President that the answer to a lot of these problems is not Federal but State. We are told that what we should do is cut back on the Federal responsibility here and leave these to the State. Now, why do we need Federal legislation? Why can't Massachusetts house its own citizens without the intervention of the Federal Government as David Stockman would phrase it?

Mr. KAROL. Congressman, I think anyone who lives in Massachusetts or has watched what is going on here, certainly in the last couple of years, is aware of the enormous strains upon State government right now. The passage in 1980 of so-called proposition 2½ has severely restricted the ability of our cities and towns to raise revenue necessary to conduct their business and has placed new demands upon the State to dramatically increase State aid to cities

and towns to the point where in our fiscal 1982 budget we laid off thousands upon thousands of State workers and severely impacted State services.

We turn and look to Federal Government for the whole range of services that we provide and look at the Federal aid and now the indication is we are going to be getting less and less money back. We simply don't have the money. We don't have resources financially to adequately meet the crisis that exists in Massachusetts. Without intervention by the Federal Government, I don't believe that we can dramatically increase the chances for young families to purchase a home. I think we are in a very, very serious situation.

Mr. FRANK. The point is well-made, because Massachusetts, as the chairman said, is a State which has been in the lead with an effort to be creative about the housing money and, obviously, interest rates are a matter over which the State has no control whatsoever. When you've got national policies pushing up interest rates to these levels, then I don't believe there is anything a State can do on its own to deal with this crisis, so I think that is why we feel the need for Federal help.

Mr. KAROL. I agree. Even though we have these laws and proposals for variable rate mortgages or other types of innovative finance, when the rates are at 15 or 16 or 17 or 18 percent, I don't care how innovative you get, you are simply pricing people out of the market. I think in my prepared remarks I tried to illustrate to the difference that a 5-percent increase in the mortgage rate makes on the income demand.

Mr. FRANK. In fact, as I recollect the salary of Massachusetts legislators, the only way a full-time State legislator could afford a home in Massachusetts would be to marry another full-time State legislator. I don't think a legislator on his own or her own would be able to afford one.

Mr. KAROL. Not even close.

Chairman GONZALEZ. Mr. Karol, this is essentially what we have heard in the States. For example, California also has developed a tremendous State-administered program and we have heard representatives all the way from southern California up to San Francisco, that forget about eliminating the programs, any diminution or lessening of the level, particularly on some of the block grant programs, that the State would not be able to continue except at a reduced rate. So that what you are saying here in Massachusetts very closely parallels what we heard in these other States and principally in California. My home State, for example, has been very affected, as far as State housing agency is concerned. We really haven't had many State administered housing programs. When I served in the State senate, I was the author of the enabling legislation for urban renewal and slum clearance. That was 1957, so you are a little young, so this may be some history, but that meant that there was a big timelag from the beginning of that program until the time that Texas came around and it is also true with respect to State level housing or State-administered housing. We simply don't have any comparable legislation. As large as the State is, and as perhaps rich in some resources that the State of Massachusetts may not be, that I have learned to appreciate the

States that have pioneered and have been innovative and have been very helpful in this respect.

What is the experience in the Massachusetts case with your block grant funds? In other words, the relationship between, say, your State agency and county or city housing agencies?

Mr. KAROL. We have local housing authorities, deal primarily with public housing, not the purchase of private homes.

Chairman GONZALEZ. Traditional public housing?

Mr. KAROL. And housing for elderly and certainly, I think, Massachusetts, particularly in the area of housing for elderly, has been a leader in this country in the commitment of State funds to help ease the housing crisis that senior citizens face and in my own district in the city of Attleboro we have recently opened two new housing developments, one funded entirely by the State and it has helped a great deal. I think that, Mr. Chairman, the real problem we see, again as mentioned to Congressman Frank, is you can be as innovative as you want and offer alternative financing, but when the rates are simply so high that no one can meet income requirements, that those programs, the effect of those programs, is seriously mitigated.

We have, I might add, legislation pending right now in the House that has been filed by one of my colleagues and former colleagues of Congressman Frank from here in the Fall River area, Representative Tony Aguiar, who chairs our house committee on banks and banking, to establish individual housing accounts in Massachusetts whereby a person would be able to deposit into one of these accounts up to $3,000 a year, up to a maximum of $15,000 and for first-time home buyers the interest on those accounts would be exempt from State taxation. I think that in itself is innovative and certainly a step in the right direction, but again, as I mentioned, I think that certain Federal policies that are primarily largely beyond our control are putting people out of work and when in this country we have more people out of work since the Great Depression, then giving or offering somebody who is out of work an individual housing account doesn't really do very much . So we think that naturally there has to be a major turnaround on the part of the administration and Congress, but we do feel that we are being innovative and hopefully leading the way and doing what we can in a small way to facilitate home ownership with people in Massachusetts.

Chairman GONZALEZ. Thank you very much, Mr. Karol. I notice that you are Karol with a "K" and, historically, Karols are right outside of Washington in Maryland and it is C-a-r-r-o-l-l. Is there any particular reason for that difference?

Mr. FRANK. This is "Karol" as in the Pope. He is Polish.

Chairman GONZALEZ. Thank you very much. We appreciate your time and your coming before us.

Now, the next witness is Mr. Richard Bolton, who is the president of the Home Town Bank of Newton, Mass. I have had the pleasure of meeting him at the outset of the meeting and thank you, Mr. Bolton, for your time and effort here expended in being with us this morning.

STATEMENT OF RICHARD BOLTON, PRESIDENT, HOME TOWN BANK, NEWTON, MASS.

Mr. BOLTON. Thank you, Mr. Chairman, I am delighted to be here to testify before the subcommittee. I'd like to recognize Congressman Frank, I am also very glad to see him here and your staff members. I apologize for not having prepared testimony. The fact of the matter is I don't have a prepared one, although I do have some notes. I am sure we have a recorder here that will take everything down.

Chairman GONZALEZ. That is one thing that the official subcommittee meetings, in fact, usually the recording stenographer or reporter is brought in with us from Washington from the congressional pool, but this time you had such a good local staff that they contracted out.

Mr. BOLTON. for your information, Mr. Chairman, and I think it might be well to explain a little bit of my background. I have been in the banking industry for nearly 25 years. Twenty of the years have been closely related with thrift institutions, particularly in Massachusetts, but I've also been deeply involved with thrift banking on the national level and the State level representing the Massachusetts Cooperative Bank League and also the United States Savings & Loan League and Thrift Industries Council of New England.

As you well know, the thrift banking industry has, I guess, been responsible for the majority of housing in this Nation and the reason for our existence is exactly that, that is the reason we were incorporated. Many years that I have spent with the thrift industry, I can honestly say that I've never seen a more critical problem than the area of mortgage financing than I have at this point and the outlook is very dismal. The thrust of the matter is that high interest rates that are brought about by this inflation. There does not appear to be any easy answer or there does not appear to be a solution to this in the immediate future. I don't think there is an economist in this country that can say that interest rates are going to go up or they are going to go down or they are going to stay the way they are. They actually don't know from all of the contacts I have had and I'm sure you probably may agree with that.

Based upon that premise, I think we have to, in the housing industry, because of the crisis we have, we have to act with maybe some caution, but also perseverance and I believe that Congressman Frank's bill here is addressing that problem.

I support it with some reservations. First, let me tell you how the situation is in our own immediate market area. We have experienced that when the interest rate gets around 15 percent or higher the market is just shut off. At the moment, in our particular area, and this is true of most of the State and the district, assuming a house goes for $74,000. With a 10-percent downpayment, we have a $66,600 mortgage, say, for 30 years at 16½ percent and taxes are probably $1,800 a year. The total monthly payment would be $1,072.51 per month, which is absolutely astronomical. It would require a gross income, assuming that 28 percent of income went to mortgage payment, and that is a requirement of some of the secondary lending institutions like Freddie Mac. The annual income

needed would be $45,960, which is absurd, and, obviously, that is our problem.

I do think that the bill that Congressman Frank has, the First-time Homeowners Opportunity Act, will take care of this problem to a certain degree. However I would want to caution you, there are two things in that bill that I think from a lender's point of view there will be difficulty with and without a lender, you don't have a problem. One, is the interest that is there I believe should be in addition to a fixed rate. There should be a variable rate provision. Thrift institutions historically, we've been burned and we don't forget it. The contributing problem is that we are and I am sure you will know, that we are being squeezed on the bottom line tremendously. There are other opportunities that we have to invest our money in besides mortgages and most of the problem of old fixed mortgage rates on our books, which are relatively low interest rates, we've been stuck. So therefore, I would suggest that most bankers today are looking at a combination of the opportunity to lend on a fixed rate that can be sold in the secondary market, or a variable rate that they can probably either hold or sell in the secondary market and then they have that latitude to become more liquid, because liquidity is another problem that is facing us.

Depositors, obviously, are demanding higher interest rates and rightfully so, and therefore, we are in competition with money market funds and other nonbanking entities which is reducing the inflow of savings to us and the bottom line is the spread, again, because we have to have proper liquidity. So we need to turn over these mortgages, if possible.

The second item in this bill that I think we may have a problem with, but again, I support the total bill, is I believe, and also I have written it wrong, that the initial rate that is contracted to the bank is the FHA rate. The FHA rate has been, historically, lower than the current mortgage market rate nationwide or in each individual State. So therefore, again, you'd have a problem with a lending institution. You could have a program all set up nice and neatly but you won't have a lending institution lending money because they have other alternative investments they would probably go to. So I mean not to be critical, but helpful in addressing this and I think that we should be very thankful that we have Congressman Frank representing the Fourth District and in my experience I have not seen anyone as intelligent or with the intellectual horsepower that Congressman Frank has and I'm very supportive of him in this bill. Thank you.

Chairman GONZALEZ. Thank you very much Mr. Bolton. I think you have very succinctly singled out the dilemma and also the problem we face. Unless we can address ourselves to a viable approach that would bring in the lender at a level and a rate that would be significant, that we do have to confront that plain, blunt, naked fact. As a matter of fact, your neighbor in the next State and the distinguished chairman of the full committee, Mr. St Germain, has introduced urgent legislation that we have been having hearings in tandem on. It is actually targeted in trying to shore up and provide capital infusion of your savings institutions, and is an effort that is shared by this subcommittee as well as the Subcommittee on Financial Institutions, Regulation and Insurance, that

the overall chairman, Mr. St Germain, from our neighboring State of Rhode Island has chaired so ably and continues to do so. So we are very grateful to you and, of course, as I was mentioning to some of the staff, the most awesome or impressive thing during these 2 or 3 weeks of hearings, we have had over 80 witnesses, has been the terribly high interest rates that are killing everyone. I think that it is a real problem and both Mr. Frank's bill and our attempt is trying to accommodate to the reality and still make it possible to come within the budgetary restraints.

Politically, our problem is that this year, even though we have worked out bills in very close relationship with the budget committees. We now find that the administration's budget requests and other actions have kind of rerouted. We don't really know where we stand, but everything that we were told up to this year was within the feasible budgetary limits.

Mr. FRANK. I want to thank Mr. Bolton with regard to the suggestions he made, I appreciate that. That is the reason we have the hearings and I will take these into account. Obviously, I need to make a point that has to be stressed. There is a tendency on the part of some people to kind of blame the banks for high interest rates and ordinarily, if you walk into a place and you pay them a higher price for their service, you figure they are benefiting. I think the very reality with these institutions is that the savings banks and cooperative banks are every bit as much the victims of high interest rates and, in fact, even more than the consumer. I think it is important to make it clear that the banks cannot unilaterally hold down interest rates. They are acted on by outside forces and you can't expect a bank unilaterally to ignore that kind of operation.

Let me ask, Mr. Bolton, we are all very concerned with costs and many of the bills, the chairman's bill and mine, the whole package, they attempt to bridge the gap between interest rates at certain levels and the 9- or 10-percent level. I think that one of the things that we mean here, no one here is talking about permanent programs. These are temporary programs that would pass away if interest rates reached a level which we thought they would. Let me ask one specific question, Mr. Bolton. There are some people who have argued that it is appropriate for Federal Government to provide assistance to people who may be moderate-income or middle-income people. The President's housing program, as far as we can see, is to provide housing vouchers to the very poor, to people who are on welfare. We have heard from Secretary Pierce and HUD, Mr. Stockman, the President himself, that it is misuse of resources to provide any Federal assistance whatsoever to people who might be in the middle-income bracket. I'd just be interested in your response to that from the standpoint of housing.

Mr. BOLTON. I'm not sure if things continue, we are going to have a middle-income class.

Chairman GONZALEZ. That is true.

Mr. BOLTON. And we might just have two classes, but I do feel, you know it is quite difficult to please everyone. I do feel as though not only the low-income people are being hurt in different ways, but in housing, the moderate- to middle-income people are getting really slighted.

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Mr. FRANK. Your industry has been particularly the vehicle for which middle-income people and moderate-income people, working people have been able to get housing. Is it correct to say that high interest rates which have really come, which are not their fault certainly, have just made them poor as far as housing is concerned?

Mr. BOLTON. There is nothing more that we'd like to see than to have interest rates come down. We, as financial institutions, make more money, believe it or not, when interest rates are down. At the moment, that is not the case.

Mr. FRANK. Let me ask, if we were to do nothing as we have been told by some we should, that is have no Federal housing program other than housing vouchers for the very poor, and things continue pretty much as we might expect them to, what is likely to be the consequence in Massachusetts?

Mr. BOLTON. It is just going to deteriorate and get worse. I feel as though what you are doing, at least you are doing something to try and correct the problem. There is not a complete solution to this problem without interest rates coming down, we all know that, I think, but I think if we sit back and don't attempt to do anything at all, then we have got a worse problem. So that is the reason why I support this. I do think with the suggestions that I made, they will and can work into the budget. As far as the static tax laws, it is difficult to determine, but if you look at charts and look at history, we don't know what the future will bring, but I think we can determine pretty much as well as Congress has done in the past, at least, and I think that can be worked into.

Mr. FRANK. You are talking variable, up and down?

Mr. BOLTON. Because without that, you are not going to be taking from the lending institutions.

Mr. FRANK. If, in fact, the administration is correct in saying interest rates are going to come down, then they are holding an advantage financially, because the money, we would then get the advantage of the downturn that may be coming.

Mr. BOLTON. I have my doubts.

Mr. FRANK. About the downturn coming, yes. Thank you.

Mr. BOLTON. If it is, it will be temporary, in my opinion.

Mr. FRANK. I will mention that Mr. Bolton is here in his official capacity as president of the Cooperative Bank League and is very active in the national level and he speaks as someone with a great deal of experience in mortgage lending in the Newton area, but also has a pretty broad perspective on what is needed nationally. Thank you.

Chairman GONZALEZ. In the field hearings before, I don't know whether I started something new or not, but out of deference to the fact that we have staff members and directors here, I usually have asked them if they have any questions that may have occurred to them and I was going to ask Mr. McMurray if he had any.

Mr. MCMURRAY. No, Mr. Chairman.

Chairman GONZALEZ. And Mr. Ruddy?

Mr. RUDDY. No, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Bolton.

We next have Mr. John Magri, who is president of the Massachusetts Association of Home Builders.

STATEMENT OF JOHN MAGRI, PRESIDENT, MASSACHUSETTS ASSOCIATION OF HOME BUILDERS

Mr. MAGRI. Thank you, Mr. Chairman, and I appreciate this opportunity to speak before you on behalf of Barney Frank's bill, which, I think, goes a long way in trying to attempt to solve the problem facing our industry, but it seems to me in the past, as you have discussed it, and the various speakers, it's been in terms of statistics. Housing is down 40 percent. Housing has been down 40 percent and the starts are down 30 percent, but there is a human dimension as to what is taking place.

I'd like to relate to you where I spent the last weekend. I went down to Braintree and Weymouth and stood in front of a subdivision and a number of foreclosed houses of one of the builders in our organization. I then proceeded to call up my plumber, who is going to do a few houses for me in the next few weeks, and found out that he hasn't had a plumbing job in 3 months and he is now out framing porches. I also visited another builder who has a lot of houses in foreclosure now living in a house with his family and he can't even afford finished floors in the house with his family and he can't even afford finished floors in the house.

I've also made an attempt in the last 6 months to move to affordable housing. I was building in the $150,000, $140,000 area and I have moved down in one community to $80,000, $90,000, and in another community to $60,000. In the $60,000 area we have seen traffic of, I'd say, 30 legitimate people that would be home buyers for those houses. We have qualified one. In the $80,000 to $90,000 area, we have trafficked through 40 people who have not qualified for one. Now, as you look at the statistics and you say housing is down 50 percent, housing would be down 100 percent if it wasn't for homebuilders engaging in buy-down, just totally sacrificing any sort of margin. Actually, they are sacrificing in the interest of not losing it. In the housing magazines, anyone taking a look at U.S. Home, which built 14,000 houses last year and have the industry analysts speculate where they are going bankrupt in 8 months. You take a look at that and I ask you, how do you expect the small homebuilder to survive?

Now, I will also tell you the experiences that took place after the last recession. Houses climbed 20 percent. The infrastructure of the industry is totally being destroyed. You have tradesmen, craftsmen, the young laborers moving out of the industry. Even if housing were to come back, we'd not be able to build. I will just tell you a for-instance. When I came out of 1974–75, I was having a house framed for $800. Within 3 months when we had the upside take place, that went to about $1,400. We went through a little downturn in 1978 and we came back a little bit and houses went from $2,000 to frame to $2,800. It is obvious that this close cycling of the recession is slowly destroying the infrastructure and you don't have the tradesmen available.

If you take a look at the industry and you take a look at the statistics of lumber companies that have closed, mills, I shudder at the thought of what is going to take place if housing does come back. If you let this situation go on much longer, even for another 2 months, then there won't be a housing recovery because we won't

be able to afford with your subsidy to build housing to address this issue.

Also, I'd like to provide a little perspective as you very seldom have the chance to offer. I probably am taking a little departure from our national organization, because I look at the broad perspective of what is taking place in-house, and I don't think housing has ever existed without the support of the Federal Government. You take a look at the books that have been published by NHP, and you take a look at the various programs FHA, VA, 235, section 8, there has never been a healthy program in this country without the support of the Federal Government and in my perspective in reading what is in other industrialized countries, housing just didn't take place without Government intervention. It is an anomaly that we sit here discussing is there a need for housing and should Government intervene when the whole historical perspective of housing is that it has never existed without Government intervention.

I would just like to say that it seems to me that what the builder is caught up in is this advocacy of the economic triage where there are three major uses of capital: housing, Federal Government, and the private sector. It seems to me that a decision has been made, if you read all the business chronicles and the Wall Street Journal and even, incredibly, the New York Times, that it said the choice has got to be made between those three units and the housing industry and the people have got to be sacrifices.

Philosophically, I would just say it is amazing that with the nominal amount of funds here that we are talking about the Government investing, we are talking about investing in the future of the young people of this country that are going to pay the bills that my generation and your generation has generated. They are the people that are going to keep this country going. On the one hand, you are going to say, "You are going to sustain the programs and activities we have left in place, but you are never going to be able to own a home." I think a term has been coined in a number of articles that have been written that what our generation is doing is they were stealing the American dream and cannibalizing our young and I just don't see this as a viable philosophy. We can have the tax relief programs and everything else, but I think that we have to invest in the young people and housing. These basic contradictions just totally amaze me. I think the major problem is that we are dealing in statistics and not the human dimension.

What we are really trying to say, and I have traipsed to the Hill a number of times and what is constantly thrown up to me is that what has to take place has to be reduced Federal investment in housing and they point to the West Germany and Japanese business system. Well, both those systems invest two to three times the gross national product that we do in housing and also both systems devote one-half to one-eighth the military hardware that we do in this country. I just totally reject those types of arguments. If there is an argument going to be made that we don't need housing, I would like to have the argument made in a broad scale and really approach those issues, but we never have an opportunity, so I can see that if something isn't done here, that we are going to be in deep trouble and I know I sat on the board of directors of one of

our own locals, there are 20 directors on that local and there were 3 of us building houses for a total of 8 houses of which I am building 5. That is a total tragedy. It just can't go on and we can't talk in terms of statistics and what is up and what is down.

Even the representatives from our State I don't think are aware of the dimensions of the problem. This date in 1973, we built 63,000 units. We are now at a rate of about six or seven units. That is a catastrophe. We are not talking about minor adjustments, you are talking about one sector of the economy and one sector of the public getting laced and hammered by the programs that are taking place right now. It can't go on.

Chairman GONZALEZ. Thank you very much, Mr. Magri. Yes, sir, you are very much underlining, and very aptly, very truthfully, the crux of the matter. We have said and have tried, even as of yesterday when we heard the Secretary of HUD, and we've been trying to reach the executive level to impress the fact that without a national commitment to housing, you have no housing. In every single country in the world, you very well brought that out, you have to have a commitment. But again, and I think what Mr. Frank made allusion to, is that we've been plagued with this philosophy that too much credit allocation, for example, has gone to housing. I know you are absolutely right, that those that have advanced this have been people that are thinking in terms of percentages and computerized targets and are not in terms of social and human situations and I agree with you. What we hear from you has been echoed from the eastern shores to the western shore in the course of the last 8 or 9 months. Of course, today the crisis is greater and it is this sense of urgency that we are trying to communicate to our colleagues in order to work very expeditiously. After all, we are supposed to be that branch that should be the closest relationship to the people themselves. What you state here is very reflective and very representative of what we have heard in almost every jurisdiction we have been to. Do you have any overhang or inventory buildup problem, that is homes you have constructed and you just can't sell?

Mr. MAGRI. I suppose that is a relative figure, with any consequence. When you have a house, one house, and it is running along at about $1,000 a month, that is of great consequence. It looks like one number, but if you have an $80,000 loan and you are at a 20-percent interest rate and you paid 4 points to get that construction, that $1,000 is disastrous, because I am not, myself, a man that is working for a living having a salary coming in everyday. I am sitting there watching that clock tick day-by-day and seeing that $1,600 per unit or $1,500 per unit going out the door and that is something that I will never recover, and that is the reason you see a lot of builders being foreclosed on and this can't go on. I mean, and what I said to you, and I want to emphasize again the point I made is that housing starts last year were $850,000 or $950,000. That is because we gave away the houses. We were paying 9, 10, 15, 16, 18 points to pay down loans. There wasn't any profit in the house. You take a look in that article about U.S. Home, they were buying down units for $30,000. That is certainly not the type of economic philosophy that can exist. It just can't sustain an industry.

Chairman GONZALEZ. The reason I asked that question, for example, in California, in January, your counterpart there, in fact I think he was the president, wasn't he, of the California State Home Builders? Apparently, in some areas in California, they did have quite a problem of inventory buildup, that they felt unless there was a way to enable them to be able to sell out without giving away, as you say, that at least until the machine could be cranked up, they were going out of business. I forget how many he named, but it was quite a number of homebuilders that had since gone out of business.

Mr. MAGRI. You asked me to personalize. The character of the homebuilding industry in Massachusetts is that small homebuilders, most of them building less than five, six houses a year, and when they have two houses, you are talking about a financial timebomb that they are sitting on and yes, there is a considerable inventory laying around.

Chairman GONZALEZ. From that standpoint, yes, sir.

Mr. MAGRI. You can't sell a house unless you want to give it away and that is the problem. I don't have a salary. If I gave away a house, then I have devoted 1 year to doing nothing, so we are not like other businessmen that have incomes. We are small. We haven't got that huge equity to fall back on. The nature of the industry in Massachusetts is mostly small homebuilders and they are being wiped out.

Chairman GONZALEZ. This is one of the big differences in California where they do have a buildup, but yet, ironically, on the greater scale they have got just the same dilemma, so what we are trying to do is to confront that issue also, your existing situation with those homes built, but not able to be sold at any kind of a reasonable rate with any reasonable prospect of having a customer.

Mr. MAGRI. In other words, you would say you'd like to tie the bill into place units, housing that is standing?

Chairman GONZALEZ. Yes.

Mr. MAGRI. I am speaking personally now, not as a member of the National Association of Home Builders. I think that we builders out there, if the subsidies are available and we have a house that is for sale, then let the subsidy be available so that we will sell the best unit. I am probably doing a great departure from our national association. I am saying to you that—I am not saying to you that you should come to us and make sure that we succeed. I am just saying that you provide a realistic environment that I can compete in and that if I have houses standing, if I have to sell them against the fellow that is going to build the next house, I am glad to live with that type of competition.

Chairman GONZALEZ. I think the points you made were so strong and so relevant and yet revealed the peculiarities from the homebuilding standpoint of this area. I think that is very important and it is extremely important for us.

The other thing that I noticed was that also in California, the spokesman said categorically—this was the first week in January I am speaking of—and he said they are talking about an upturn in March, but even if there is an upturn in the economy and a downturn in interest rates, the nature of the construction business, and certainly I can't presume to know one-half as much as you do on

that, is that even if you did have a turnaround as early as March, we wouldn't be able to do anything until the autumn as far as construction is concerned. So what you have said here is very disturbing from the standpoint of the immediacy of action. The fact that while we sit at the table and think we are being very fast on the legislative level, the fact is, we need a lot more quicker action than is possible.

Mr. MAGRI. Because I will speak for the general consensus, we don't really believe that you are going to see any significant downturn in the interest rates that has any meaning at all for the housing industry. If it goes down one or two points, there are too many contrary, conflicting activities taking place out there in Congress and the business community and the financial community, I mean. You can't sit in front of a builder and tell him if even some of the programs succeed fairly well that there is going to be any significant downturn and that is why I say that is the start, but I think this country has got to address the problem. If the Government pulls out of the housing business, there will be no housing business.

Mr. FRANK. I want to say, Mr. Magri, how much I appreciate the points you made. You are right. We were told over 1 year ago when this administration first came to us that housing was kind of a luxury goods, that we were overhoused. One of the things I think they now realize they were wrong about, no matter how you value the end product of housing—I clearly value it a lot more than they do—housing has a role in the economy that is a lot greater than they thought it was. You can't let the housing sector collapse because it will have a terribly depressing effect in other areas of the economy and that is, I think, one of the things that is coming through. But I also want to followup on your last point that if Government pulls out you wouldn't have housing. That is one of the things that has to be stressed, that yes, there is some emergency aspect here, but there also has to be an ongoing commitment, because what we are talking about now, taking middle-income people, housing means that at some particular point in your life you've got this enormous expenditure. A lot of the programs aren't necessarily grants, they are loans. What you are trying to do is smooth out people's cash flow problems. You come to the point in your life where you are ready to start a family, you've got to make an expenditure for a home. It may be 30 or 40 years later where you may be in a position where you have got a little bit saved. What we are trying to do in a lot of these programs is trying to smooth out that kind of bump, so just that when you get to the point where you are starting a home and you want to have kids, you will not be at a point where such a large bite will be taken away from you.

When you said if Government isn't involved there wouldn't be housing, for whom is that for?

Mr. MAGRI. Other than the absolute total subsidy, other than low-income housing, I know that from the present policies when I take a long-term look at what is taking place in the financial marketplace and problems we are having in this economy, and also took a look back at what takes place in the history of housing, there really has never been housing without Government intervention. It is a massive undertaking. If you take a look at the building of the infrastructure that supported the building of houses, the

sewer lines, the roads that were built by Government. I am sure all the laissez-faire would resist that, but I would say that is supportive housing. If you look at the financing, if Government had not intervened, you would not have low downpayment housing. As we move through different phases or different areas, there are different problems that have come up and they are too large for the industry and too large for State or individual communities to solve. I just think that it is amazing that we even have to discuss this, that housing isn't a national issue, and housing shouldn't be a commitment of the Federal Government. That is incredible and it is amazing that I ever thought I'd be at the point, that I'd be discussing that with you, gentlemen, the issue that, whatever it be, that housing shouldn't be a concern of the Federal Government.

Mr. FRANK. I think, frankly, under the radical nature of this administration, programs for years have been debated, but this is the first time, frankly, since Roosevelt that we've been told by a national administration that there ought not to be Federal housing programs. One of the things that has happened has been, historically, we have the small saver going into the thrift institution, opening up a passbook savings account, and, in effect, taking a lower rate. Now, what the small saver has discovered is the money market fund and there is no more differential. There was a source for lower rate savings available for housing through the small saver and that has basically gone. We are seeing a steady erosion and there's not been anything done to stop that.

Mr. MAGRI. One illustration of the hypocritical nature of the debate, here we are in a generation, the people that are at the seats of power saying:

> We go to the free market system, we live in our houses that we were able to afford because federal regulations said you couldn't pay a saver 5½ percent.

It seems to me that once you have gone, and we had a great debate in our own organization 2 years ago when what was advocated was an open market system for funding, what would be the implication for housing, well, the fruits of those decisions are coming through right now, but I don't see anybody addressing the problem and I certainly don't think Secretary Pierce says, as I recall, on his solution to the problem on a national basis that the very story was when he was called by a caller on what to do, his suggestion was not to buy a house for 3 years and wait for interest rates to go down. So I don't look for any great movement forward in this administration to support the housing industry or the home buyer.

Mr. FRANK. We would point out when we talk about interest rates, that we are getting fluctuations on short-term rates, but we are talking about mortgage rates. We are talking about very long-term rates and no matter what happens, they will probably be one of the last things to come down. People will be very nervous about that kind of money for that length of time.

Mr. MAGRI. One final point, and that this is also categorized as a subsidy, this is a very unique subsidy as opposed to a tax incentive writeoff and depreciation allowance, or special business writeoff, is that this subsidy goes to the consumer. It does not go to the builder, so the builder has to compete. I don't get that and I can't use

that as an economic tool over the heads of my consumer. I would say that is the fundamental difference that we are talking about.

Mr. FRANK. You still have every incentive to be efficient that you have ever had and it doesn't in any way interfere with that.

Mr. MAGRI. Our industry is a very unique housing industry and that is why the small home builder has survived and if you eliminate the character of the small home builder, I'd just hate to see what this country would be if General Motors were building houses.

Chairman GONZALEZ. Thank you very much, Mr. Magri.

Mr. MAGRI. I want to thank you for the opportunity to testify before your subcommittee.

Mr. FRANK. Let me just say this, Mr. Chairman, that the building trade representatives, they are having their convention in Washington.

Chairman GONZALEZ. In other words, we have been informed that the remaining witnesses are not expected until 1 p.m., so that the subcommittee stands in recess until 1 p.m.

Mr. FRANK. The building trades, the Building Trades Conference is in Washington and some of the particular union bricklayers, carpenters, et cetera, I think, are having their preliminary meeting. We passed each other on the plane this morning.

Chairman GONZALEZ. We will stand in recess until 1 p.m.

[Recess.]

Chairman GONZALEZ. The subcommittee will resume its hearing and we wish to recognize at this point Hon. Tony Aguiar who is the State representative to the State legislature and I understand this is your district.

Mr. AGUIR. Nearby, I am from Swansea, Mr. Chairman.

Chairman GONZALEZ. But I might say that Congressman Frank has informed me that you are the chairman of the Banking Committee, so thank you very much for your time and your interest in being with us this afternoon, sir.

STATEMENT OF HON. ANTHONY AGUIAR, REPRESENTATIVE, MASSACHUSETTS STATE LEGISLATURE

Mr. AGUIAR. Mr. Chairman and members of the subcommittee, it is my pleasure to be here with you. There is almost nothing more important to a young married couple than the dream of owning their own home. With the inflation the way it is, it is impossible for them to handle the high interest rates, the large down payment and the staggering monthly payments. Surely Government has an obligation to assist in such a situation.

Congressman Barney Frank's legislation provides the vehicle to remedy the problem by providing the assistance to first-time homeowners. I would like at this time to congratulate you, Mr. Chairman, and your subcommittee, for thinking that the Greater Fall River area is important enough to be chosen as a site for this hearing and I would certainly endorse the legislation and urge your committee and the Members of Congress to do something to help in this situation. Thank you so much for letting me speak.

Chairman GONZALEZ. Thank you, sir. Mr. Aguiar, I had asked earlier State Representative Karol about the State system and the

basic financing arrangement with the State law, but I also was left a little bit in doubt. He explained to me the formation of this special housing council or commission—what was the title?

Mr. FRANK. MHMFA, the Massachusetts Home Mortgage Finance Agency.

Chairman GONZALEZ. But before its creation, I understand that goes back 4 years.

Mr. FRANK. Yes, 4 or 5 years.

Chairman GONZALEZ. I was under the impression the State of Massachusetts had a State housing commission as such, am I correct?

Mr. AGUIAR. The individual towns have local housing boards and there is State money funneled to the community for elderly housing and for low-income-type housing and so on, so there is State money available for that type of assistance. There is no State money specifically available for home mortgages other than the bond money. The $200 million that have been provided and will surely be available in 2 or 3 months for low-income-type people who need mortgages at a reduced rate. So the State is trying to assist, but we also certainly need assistance from the Federal Government.

Senator Jack Brennan and myself have filed legislation dealing with individual housing accounts which would allow first-time home buyers to put away $3,000 a year for 5 years for a total of $15,000 in an account that would not be taxed on the State level to induce the home mortgage, to assist them in buying their first home and we have been given a favorable report by my committee last week and hopefully it will become law so that at the State law we are trying to assist in helping people buy their homes.

Chairman GONZALEZ. What about the picture insofar as it relates to block grant funds that are funneled through the State? Has the State of Massachusetts diverted those, say, in aiding the county housing agencies or does the State of Massachusetts receive any subsidy?

Mr. AGUIAR. We don't have any county housing as such, it is strictly to the cities and towns and they set up their own housing commissions, but there is State money matched with Federal money to aid them.

Chairman GONZALEZ. So that there is no question that if we were to suffer any lessening in Federal money or elimination of that Federal money, the State of Massachusetts alone could hardly proceed?

Mr. AGUIAR. That is true.

Mr. FRANK. Thank you, and I am delighted to have the chairman of the Banking Committee here, because I can testify I served with him and he is very creative with some of the things at the State government level trying to help with this terrible housing crunch. I just would like, for the record, Representative, for you to tell us in your view, given the resources that are available within the State, given national economic forces, is the housing crisis an appropriate case for us to say that this is one of the areas that the States can do better by itself?

Mr. AGUIAR. The State could never do it by itself. We can assist, but we'd be lost without some Federal aid. The banks themselves

don't have the resources at the present time because they are in competition, so it is difficult for them. The banking institutions such as money markets are diverting money that normally would go into a bank. It is making it very difficult.

Mr. FRANK. The money market funds have gone up and we have heard through testimony that this has diverted funds that used to go into the thrift institutions because they pay a higher rate of interest. Do you see any set of circumstances that is going to return to the 5- or 6-percent passbook savings account as the sort of mortgage funds for housing for the future?

Mr. AGUIAR. No. Unfortunately, because the banks have to pay a much higher rate on term certificates in order to try to compete with money markets, they are losing money. When someone puts in money in a bank, they normally would put it in a term certificate to try to get a higher rate and the bank is not making anything in comparison on their long-term mortgages so that they are losing money every day.

Mr. FRANK. What is the consequence then, given the financial trend of Massachusetts and Rhode Island, if we were to follow David Stockman's advice and just do nothing but housing allowances? What are the consequences for housing in Massachusetts as far as you can predict?

Mr. AGUIAR. People of moderate means could not afford housing.

Mr. FRANK. We would not see that kind of housing constructed?

Mr. AGUIAR. They couldn't meet the payments.

Mr. FRANK. I appreciate your coming forward today. I would underline the fact that we are hearing from the man who, for 10 years now, has been chairman of the Banking Committee in the Massachusetts Legislature and I think it is important for us to hear from local officials like this because we are told by so many people in Washington, "Leave it to the States, the States are willing to help." We have talked about specific things that Massachusetts has done but the State of Massachusetts can't bring down interest rates and the State of Massachusetts hasn't even got access to Federal lending institutions that we have got in Washington. I think the point has to be clear, too, either we have a constructive program at the Federal level or middle-income people are going to be priced out of the housing market for the indefinite future.

Chairman GONZALEZ. I'd like to add one thing. I want to inject this explanation about the voucher or the proposal that the President's Commission on Housing has come up with. We must understand that it's never been intended to be a substitute for the ongoing programs such as they are in housing production at all, but it is hard to consider the poorest of the poor, or the poor who are already housed, the voucher would be intended for that poor family on a nonentitlement basis. This is what I thought was so disappointing, that the Commission was limited in its scope and in its charge by the President so that it couldn't be an entitlement program. That means you then have no category of priority. So it is obvious, and it is conceded by the Commission that it is intended for the poor families who are already housed and therefore, would not in any way address itself to any of the problems that you have and your colleagues and Mr. Magri have so dramatically pointed out.

It also leads to another question, and that is assuming when we get the details of the New Federalism that the Congress goes along and that assuming these programs such as they are, are still in existence and they are then delegated to the State, in the State of Massachusetts, for instance, in carrying out some of the basic housing programs, assisted housing programs, and some of the related community devleopment programs, what would that mean administratively? Does the State of Massachusetts have the capacity to administer without an enormous increase in the bureaucracy and what would be its capability to administer promptly some of those basic programs?

Mr. AGUIAR. I don't think they'd have that capability, Mr. Chairman. Right now they funnel the money to the local communities, the cities and towns, to their local housing boards and it has been handled at the local level where the housing is built by the local community. I don't think that we have the personnel nor the expertise at the State level at this point to handle it.

Chairman GONZALEZ. The President's program visualizes a yet-to-be-defined specific source, a trust fund is mentioned, but then rather vaguely the trust fund is supposed to derive from some of the proceeds from the so-called windfall profits tax, but to what extent that funding from the trust fund would be available, for example, for the State of Massachusetts to make the transition, it is charged with accepting the responsibility. That is why I qualified my question in saying that if we get more specific details and Congress goes along what the picture would be on this State level. So that even if you had some minimal administrative help, the immediate ability of the State, and especially to pick up that responsibility in a period of less than 3 years, as I think the message insinuated, would be nil. It would be very hard for the State of Massachusetts and its ability to tax itself to continue the level of operation of those programs.

Mr. AGUIAR. Unfortunately, sometimes we are called Taxachusetts, so we are reaching the point of no return on taxes. The trend has been the other way, to reduce spending.

Chairman GONZALEZ. Mr. Ruddy, do you have any questions?

Mr. RUDDY. Just a couple of questions. You mentioned that Massachusetts had $200 million that will go out this year. Has the State housing authority floated a bond issue this year?

Mr. AGUIAR. They are doing it right now and it should be available, I would think, in about 3 months.

Mr. RUDDY. The reason I am asking is because some States tell us with the condition of the bond market right now, that they cannot economically float a bond issue.

Mr. FRANK. In Massachusetts we have two separate agencies. There is the MHFA, which is multiple family and MHMFA, which is single family, so there are two agencies.

Mr. AGUIAR. These are for single family.

Mr. RUDDY. I ask this because there is a resolution that the House Republican Task Force on Housing adopted the other day to increase the arbitrage limit up to 1.25 from the 1-percent level because some State housing agencies say the arbitrage limits are too low. Also I am curious about the level, because it would also increase up to $400 million the level for each State, so it seems to me

that might help Massachusetts if you are already at your limit. Generally, do you hit that $200 million limit?

Mr. AGUIAR. They spend it, yes, because there is a great demand out there. People with medium incomes who want to build a home are looking for any reduced rate and it would be a below-market rate and they are waiting out there for it.

Mr. FRANK. What I have heard from our State housing finance agency, multiplefamily are the ones that need some further help, but the single family people have been able to go ahead.

Mr. RUDDY. I also wanted to comment that with your $3,000 tax exemption you are following a long Massachusetts' tradition on that, because I think on the national level, it was probably Senator Ed Brooks who was the first one to introduce that legislation.

Mr. AGUIAR. I believe he was.

Chairman GONZALEZ. Thank you.

The next witness is Ms. Carol Carroll a realtor from Fall River.

Ms. CARROLL. Do you want me to make remarks?

Chairman GONZALEZ. We recognize you at this point and thank you for your time and your presence.

Mr. FRANK. Perhaps you could make just a brief opening statement.

STATEMENT OF CAROL CARROLL, REALTOR, FALL RIVER, MASS.

Ms. CARROLL. This program that you are bringing forth here for the first-time home buyers, are you just proposing this to us now? How does it look? Does it look like it is going to go through?

Mr. FRANK. Let me respond. That depends in part on the results of hearings like this. One of the reasons we are doing this it to try and gain some support and some testimony for my bill and for others. Obviously, there are going to be some changes necessary in the details and hopefully we will have an overall package. I would say as we said at the outset, things were a lot better in this regard than they were 6 months ago. Many, many more people recognize what a housing crisis there is, but we are still trying to get the extra evidence that will help us persuade people in Washington and the need for some Federal response here.

Ms. CARROLL. You feel your program is a lot better than the bond issue that may be coming through in the State of Massachusetts?

Mr. FRANK. It is supplemental. The bond issue is in addition. Also, there's different income limits. I think the income limits within Massachusetts are lower than they would be on this bill. There are people who couldn't qualify under the Massachusetts single-family home situation who would qualify under this.

Ms. CARROLL. Well, I think it is a good program and I will support it as much as I can among the realtors.

Mr. FRANK. Let me just ask you what has happened to the home market here in the Fall River area within the last few months or within the last 6 months or so. What kind of shape is the real estate market in?

Ms. CARROLL. It's been declining drastically. The houses that are on the market now are only on the market because people have a need to sell. People who want to buy homes are only buying be-

cause they have to or because the interest rate doesn't mean anything to them because they can afford it.

Mr. FRANK. What do you think about the situation as a whole?

Ms. CARROLL. I think is is very sad that young people, the first-time home buyers who have a substantial amount of downpayment, who want to purchase a home and can't because they can't afford the monthly payments. It is just too high for them.

Mr. FRANK. What income level is it that people are unable to afford it?

Ms. CARROLL. I am talking about an income of possibly $20,000 to $25,000 with husband and wife combined.

Mr. FRANK. You have the young couple, people who are both working and between themselves make $25,000 and they've been told the American dream, you buy a home, and they come to you and they say, "Ms. Carroll, what can you do for me," and you tell them, "Nothing," because the market is such.

Ms. CARROLL. I don't tell them that. We go out and we try to find what we can for them.

Mr. FRANK. But is is very difficult?

Ms. CARROLL. When you sit down and go over the basics and the prices and their mortgage payments or their principal and interest, it is just phenomenal. They just can't afford it by the time you add insurance ant their lving costs. It is sad, especially for the young people. I really feel sorry for them. Those are the ones that really try to make their mortgage payments because they are young and they are gung-ho at it.

Mr. FRANK. So you think there is some logic to a program which in part targets itself to these young people?

Ms. CARROLL. Definitely.

Mr. FRANK. What do they do when they come to you and they can't find a house?

Ms. CARROLL. What they will do, they will sit back and continue renting, save more money and hope that the interest rates go down or sometimes we can find a lower type financing, which is lower than the bank rates and we get them a home that way.

Mr. FRANK. It's really slowed down for what it's been previously?

Ms. CARROLL. I've been in real estate for 9 years.

Mr. FRANK. If we were going through a period of another year or 2 with new home construction being as low as it is, what is that going to mean for your market a couple of years down the road?

Ms. CARROLL. It's going to be very sad, very, very sad. Thank you.

Chairman GONZALEZ. Ms. Carroll, thank you very much for your time and I hope—I don't know if you belong or not to the National Association of Realtors.

Ms. CARROLL. Yes, we do.

Chairman GONZALEZ. Is there some way you could communicate through your affiliates here your interest in support of this type of legislation? It would be very helpful to us. We haven't heard too many encouraging words from the National Association of Realtors.

Ms. CARROLL. Have you tried going through the State association of realtors?

Chairman GONZALEZ. The State association of realtors, I don't know, but what we have before us in Washington have been the

spokesmen for the National Association of Realtors. I don't know if the State of Massachusetts' delegation itself has, but if anything can be done to influence that level, it would be very helpful. It wouldn't hurt a thing.

Mr. McMURRAY. Thank you, Mr. Chairman. Ms. Carroll, you mentioned young couples starting off their married life living in rental housing. Is there an adequate supply of rental housing in the Fall River area?

Ms. CARROLL. I find that getting less and less. We used to have a lot of empty apartments throughout the city. Now we don't find as many as we use to for the simple reason young couples getting married, older couples selling their homes looking for small apartments or apartments, so they are renting them all up, so we are running short of apartments, also.

Mr. FRANK. There is a backup, young people in the normal course will be moving out of their parents' and they move into apartments, and because when it comes time to move out of apartments, they can't afford housing, it creates an apartment shortage, as well.

Ms. CARROLL. They are taking their money, as far as I am concerned, and blowing it out the window.

Mr. McMURRAY. Where are they going to go if there is no rental housing?

Ms. CARROLL. That is a question somebody has to answer. I really don't know. I just hope the housing market improves where they can go into a home.

Chairman GONZALEZ. Thank you very much, Ms. Carroll. We are grateful for your time.

Next we have Mr. Mark Sullivan who is a director of Citizens for Citizens, the CAP Agency, Fall River.

STATEMENT OF MARK SULLIVAN, DIRECTOR, CITIZENS FOR CITIZENS (CAP AGENCY), FALL RIVER, MASS.

Mr. SULLIVAN. Congressman, I welcome you knowing what a very influential man you are, taking the time out. It seems like it brought us a little nice weather. We could use a little nice weather around here from Texas.

In looking over the bill and running the antipoverty agency in the majority of Bristol County, although this bill does not affect primary the constituents that I represent it does affect them indirectly just along the lines of what Ms. Carroll just had mentioned. As the housing stock is depleted, as the housing stock is encroached upon by the lack of adequate housing in other areas, low-income people are continually being squeezed out of the housing market. One of the problems I have, by the nature of my job, you deal with sometimes the subterranean economy, the people who are forgotten about by the many members of government.

One of the things I find very ironic in the bill we are talking about, a family income of $30,000. You are in the wrong place to talk about a family income of $30,000. The median income in Bristol County on a per capita basis is $4,600. I run a fuel assistance program that 50,000 people are on out of 350,000 people in the area I serve, and over 65 percent of the income, family income is under

$6,000. This is one of the poorest SMSA's in the United States of America. The reason it is poor, and I think this is something that Congressman Gonzalez can understand very well, we have a large immigrant population, a large first and second generation immigrant population.

What happens when you have poor employment? We are always into double-digit unemployment regardless of what happens nationally because we have a lot of marginal industries, but the people in this area are hard-working people who pursue the American dream. When the immigrant society in its first and second generation, and I must say if my grandparents were so successful, they'd still be in Ireland, so I guess they didn't make it too well. They came to this country to pursue the great American dream, this institution and the institution down the road, southeastern Massachusetts, is designed to fullfill the dreams of the great American dream.

I am worried about the problems that the lack of housing is going to cause and the social fallout that will develop. Ninety-two percent of the American people can no longer afford homes in Fall River and in the surrounding communities if the rate is much higher because of the income. If, as an individual, a person pursues every avenue that the society says you must to be successful, and then you are still a failure, you take a look at the rates of alcoholism in this community, the crime in this community. Although the crime is very low in comparison to other places, it is on the increase. Most of the blighted neighbors you are dealing with 75-percent absentee landlords. If people own a home, they take pride in the home, they take pride in themselves. You have to give people some human dignity. Homeownership, I believe it is almost a constitutional right to pursue homeownership. With the amount of money that it takes to buy a home right now, I do not feel that God, I couldn't buy a house today. I bought a house a few years back, but I couldn't afford one now. I work, my wife works, most families around here you are dealing with two wage-earners. They still cannot afford a house.

What this bill does, is the people who are able to be on the upper end of the income ladder around here, and most are just in the middle, but on the upper end of the middle scale around here, it would free up housing for the elderly, for the handicapped, for the needy in the city of Fall River, up to 92,000 people. Over 27,000 of them are beyond the age of 60. We are the St. Peterburg of the Northeast, that is what Bristol County is. As the housing stock becomes more and more limited, demand for housing supply and demand does work, except it does work to the society disadvantage of the people who cannot participate in increasing their supply. So what this bill would do would be to free up, as the previous speaker before me had said, it would free up the housing market so that the young couples, the people pursuing the house, the people pursuing the great American dream could buy those houses, free up that type of housing for the elderly, for the disenfranchised.

I think housing is a critical absolutely critical need in terms of controlling crime, in controlling neighborhood violence, in terms of controlling one of the bigger problems in Fall River. In some of the neighborhoods, it is a fact that people are afraid to go out of their

houses. There is no pride in homeownership, because you don't own any.

As the previous speaker stated, you are throwing money out the window. If you own something, you are much more cognizant of it, you are much more careful, you are much more of a law-abiding citizen.

I am much more concerned about what is going to happen nationally. In the next year, year-and-a-half, if the Federal administration keeps cutting, as the editor of Time magazine pointed out, 70 percent of the poor people suffered the administration's cuts in the last budget and the proposed budget, 90 percent of the cuts go against poor people. You are dealing in an SMSA that is tragically poor and housing is a very key issue.

As well as being on your committee, community development legislation is a very key aspect of rebuilding. My feelings are that New England, and I'm a very parochial person, Congressman, so I wouldn't make any bones about it, this part of this country built the rest of the country. This part of the country is falling apart. I believe the rest of the country owes an obligation to this part of the country. The bill we are talking about starts moving in that direction, as well as the community development block grants, the UDAD grants. We suffer very much from a lack of social overhead capital. The housing stock to attract new industry which you must need to get to new industry in here, the housing stock isn't there. People are being classically priced out of the housing market. What is happening in tenements, what we have around here, we have tenements, they are old, cold-water flats which they would be called if in some other part of the country, but the demand for this kind of housing is getting enormous. To rent a house in Fall River, to rent a cold-water flat costs $250 a month and that may not seem like a lot of money, but it is a heck of a lot of money when your gross income is $6,000.

I implore you in terms of, again, I am very cognizant of your position, Congressman, I am very grateful to Congressman Frank for bringing a man of your stature down to this area of the country, or up to this area of the country from which you come from. This area of the country is a good area. It is an area that works and the people want to do the right thing, but damn it all, the Government has got to give them a shot. Thank you.

Chairman GONZALEZ. Thank you, Mr. Sullivan. I deeply appreciate your kind and generous words. I want to assure you that Congressman Frank and certainly I are devoted to really doing something. We are doing all that is within our power and we are going to double even that because you speak the truth and you speak what we have heard in every section of the country we have gone to.

We have, as I said earlier, gone from the Eastern Shore all the way to California. The only thing is that what you have done has been, and very surprisingly, something I didn't know, I had an idea that things were bad, but I didn't know that the statistical presentation you gave reflected that level of economic scarcity. This is an area that I certainly have always looked up to, but let me say this, that earlier you said that this bill didn't address itself to the bulk of your constituents, but our main vehicle that we call our 1982

Housing and Urban Development Act of which we hope to incorporate the minimum thrust of Mr. Frank's bill, we call it H.R. 5731, is targeted for your constituency because it does provide, in fact, it is the only thing that is being offered now to keep even the meager programing that we have ongoing at this time on and that is public housing and section 8.

Mr. SULLIVAN. Yes, and very needed. yes, I would like to clarify a little bit further, when I say this bill does not specifically help those constituents, it does.

Chairman GONZALEZ. I just want to make you aware of this other aspect of it.

Mr. SULLIVAN. What I am saying is any bill in favor of housing in this area, I am in favor of for the simple reason that the constituency that I represent will not have—what we have is a society that is pitting poor people against poor people for scarce resources. This bill here, regardless of whether it is $30,000, $40,000, if it frees up some housing, then it helps my constituency. Maybe it is one step removed, but it is a hell of a lot better than they are doing now.

Mr. FRANK. The point is, his constituents suffer when backup exists on the rate that people should be moving out into single-family housing, they back up and there is more competition and higher prices for that housing.

Mr. SULLIVAN. That is why I wanted that clarified. I realize I am very familiar with your work in the Congress and like I said, I view it as a compliment for Mr. Frank in this area to get a man of your stature down here and not have a lot of political nonsense. Excuse me.

Chairman GONZALEZ. Coming from you, that really is a compliment. Let me put it this way, and I'm not bulling either when I say this. Ever since Barney Frank came up, I will tell you it's been an inspiration to me, especially when he got on the subcommittee, because, you know, in my experience, I have served at the local legislative level, city council and State level and State senate and up here for 20 years now. My estimate of any legislator is based on his role as an initiator or what I call creative endeavors. That is because of the greatness of our system and I think it is still true, and that is assuming that you can live long enough, that in our processes, if you have the idea and it is good, and it is basically sound, and you have, like I say, the patience to live long enough and get reelected long enough, and you have any kind of modest skill in pursuing, it will eventually be adopted. When a man of obviously Barney's talent, because he is—and I am not just saying that because he is here, I have said it back in Washington, we have a chance to get things done.

Mr. FRANK. Thank you, Mr. Chairman. I appreciate the words and Mr. Sullivan's words. I think he made an important point that is worth stressing, which is we have had enough of pitting one group against another and saying, "If they get this benefit, that is going hurt you." I think it's been made clear today by a number of witnesses, as well as Mr. Sullivan, that when we deal with housing, we are dealing with a commodity where there is a demand and a supply and if you shut down the supply and the demand continues to grow that is bad for everybody. So that if we get housing built

for the sector that this particular first home buyer looks at, it is helpful in a way to everybody. Of course, we do have the overall package. I just would ask Mr. Sullivan, in particular, because I think from his background, one of the points he made, and you were stressing, has to do with the social value of homeownership. What we have gotten from some of the people in Washington, Mr. Stockman and others, is looking at homeownership and housing as just one item among many. What they have said to us—and I think this is what makes his testimony very relevant—you are putting too much value on housing. Housing is just an investment like anything else. I gather from what you are saying, Mr. Sullivan, is that there is an extra dimension when we are talking homeownership that makes it somewhat different than just some other items of production.

Mr. SULLIVAN. By the nature, and one of the tragedies is that I am one of the largest employers in Bristol County, that is an absurdity that I am an antipoverty agency and I am in the business to put myself out of business. If adequate jobs and adequate income were paid and in a country as great as this, we would not need that, but every statistical social survey that we take, crime is becoming an important issue, especially in a community where there are so many elderly, that it jumps at you, like it jumps right off the paper.

Homeownership and crime in the area are synonymous. There are no and's, if's or but's about it and in the Corky Row district of this city where I was born and brought up, and I am very proud of it, the area is crime ridden. You are also dealing with 70-percent absentee landlords. Anyplace you go in the city or Bristol County, anyplace where there is homeownership, there is pride, there is pride in yourself. If you have pride in yourself, you have pride in a lot of other things.

What has happened to the majority of people, they have been stripped of their personal dignity. I believe homeownership, because of what I was taught in the schools in Fall River, born and educated in Fall River, homeownership is something that if you do what the society tells you to do, you will achieve it. It is a damn shame when you do everything that society tells you to do and you cannot achieve anything that is the end result of the goal. You can statistically look at every single crime report and take a look at the homeownership and you will see that 70 percent of the people don't own homes and that is when you get into vandalism, which leads to other things, and you don't have to go into everything, I am sure you are very familiar with the quid pro quo of why you start and I believe housing is a very essential part of eliminating a number of social problems. If you take care of the housing problems, I believe you will be saving the Government money. If you provide housing for people and you let people buy their homes and participate in the great American dream, the amount of money you have to spend on crime will more than offset the amount of money you have to spend to have people living in decent housing.

Chairman GONZALEZ. Mr. Sullivan, you know, perhaps in my case, I have a background and exposure to situations being that my parents were immigrants—it's funny to use the words, but in the case of my father, his roots go back 400 years in Mexico. Back at a

time when all of this was one big piece of real estate in which he was part of, but they were immigrants in the sense that they fled to San Antonio. They sought and obtained refuge. I find my self sometimes seeing things. Take interest rates for instance. In Mexico, if you were in the upper category, you would be able to borrow money but if you did, the idea that you could borrow at anything less than 16 percent was absolutely unbelievable. Then, look, you have no mass production, mass consumption, variety and diversity of goods available to the little guy. There is such a contrast in poverty and extreme wealth even now. All you have to do is go 125 miles south of the border, when we went to the mines and you will find mineworkers working at about $1 a day.

Mr. SULLIVAN. I was miner also. I know what that is like.

Chairman GONZALEZ. You know what the work is. You can imagine the emotional trauma that I am going through when I see that here is our country being turned into that kind of a society of scarcity, of reverse opportunity, ownerless and homeless and I say now identification with the pride of ownership and therefore individuality. So in my case, I'm extremely sensitive and have been one of those that for years and years has spoken out on interest rates.

Mr. SULLIVAN. I realize that, Congressman, just from the area you come from. By the nature of my job, I do spend a lot of time in Washington and I know you are sensitive to the needs of immigrants, sensitive to the needs of first- and second-generation people and sensitive to the needs of poor people.

Chairman GONZALEZ. How has the elimination of the agency, the Community Services Administration, what impact has that had on your local community action programing?

Mr. SULLIVAN. I have personally laid off 350 people in the last year and I do not believe in building a community action agency by paying people minimum wage, so you must have a relatively decent pay. We have a large community action agency. Eliminating the Community Services Agency, for example, we run the senior aid program, we run the Headstart, I run 29 different programs here. You eliminate the community services aspect of it, you are going to have to pick up the administration of 29 other programs. Every program that the President wants to save gets adminstered for nothing. The Foster Grandparent, for example, before they realized it, and those people get paid $2 an hour, there is no administrative money. The senior aid program, there is no administrative money. The community gardens program we run, that is just my staff running it on their own. We give toys to 8,000 poor kids at Christmastime, people who cannot afford it. There is no money to run that anyone. The periphery fallout of a very small grant which we got, the central administration grant of $250,000. In order for the Govenment to keep the services they want to keep I estimate will cost them three times as much money just in administering the programs because the auditors aren't going away. I receive 74 grants to run 29 programs in 3 cities and 15 towns. I wish they gave me the money that the auditors made and agencies like mine, agencies dealing with the poor gave me that money and let them keep the money they give to run the programs and I will be on a much better scale.

Chairman GONZALEZ. What is your present funding picture? In other words, are you getting community block grants?

Mr. SULLIVAN. In Massachusetts we opted for the block grant in October. Now, you are getting into the realm of the problem Massachusetts, rather than becoming a liberal State, we wouldn't have any king if we were a liberal State. There are only three public officials in the State or country who have supported Ronald Reagan outside of Mr. Hatch and another Senator. The other one is Edward King, so everything that is block granted to the Commonwealth of Massachusetts is not going to the constituency that I represent, quite the contrary. Massachusetts is not a liberal State and never has been. If we go dubbed as a liberal State because Richard Nixon was beaten here, I thought we were a little bit smarter than everybody else, that is all, but outside of the fact, you know, and I know the politics are usually played between Texas and Massachusetts you've got the Speaker of the House for a certain period of time and then we get the Speaker of the House back, so between Mr. Rayburn and Mr. McCormack and Mr. O'Neill, that is where the game is played in Massachusetts.

Dealing with community services block grants, we are dealing with proposition 2½ which is very similar to, and more devastating than, proposition 13 in California, because there was no reserve, so local officials have their hands tied. The Governor of Massachusetts, in my estimation, is just probably just one step even more insensitive to the needs of poor people. I am giving you a prime example. Over in the city of New Bedford, I am just running one program over there. There's going to be a $3 million shortfall in fuel assistance money, $3 million which the Governor of Massachusetts keeps parading around that we have got fuel assistance and we are going to take care of the elderly during the winter. Now, I've got $3 million and the Governor is nowhere around. So as I view certain problems, the Federal Government must take steps, not only in your part of the country but of this part. Many of these things would never have gotten done without the power of the Federal Government.

I am a firm believer in personal freedom, but at the same time there is a certain role that the Federal Government must take to make sure that everybody is not discriminated against, that has an adequate opportunity and once you start putting things back into the hands of the State, maybe it is going a little too far. I am not disagreeing with some concept of the New Federalism, some of the budget cuts. Most of the people I dealt with at the middle level, middle level bureaucrats that weren't worth a damn, they were in the business of preserving their jobs. You get somebody from OSHA that turns around and say, "How many exists can you go out of?" After he does that his job should be over. The next thing you know, he is dictating how wide the door should be cut, how high the steps should be. That is job preservation that can be eliminated. Poor people do not mind biting the bullet on some Federal legislation because they take the beating on other, but when they are the only ones biting the bullet, I am telling you, Congressman, that somewhere down the line by the nature of my travels, there is a country that is walking right back into the 1960's. I don't like to say it. I want it to go away, but it won't go away. As one person I

admire very much said, "I'm sitting around waiting for the big guys to come in and the older guys to solve it, because the problems are far beyond my comprehension."

Chairman GONZALEZ. One point there about Masachusetts liberalism; I thought Massachusetts had gone for that great liberal, Jimmy Carter. Thank you again, Mr. Sullivan, and thank you for the job you are doing.

Mr. FRANK. I will try to make sure a lot of the colleagues get to read some of this. I think we will call their attention to some of this discussion. Thank you very much.

Chairman GONZALEZ. We next have Ms. Lisette Soares.

STATEMENT OF LISETTE SOARES, DIRECTOR, PORTUGUESE YOUTH CULTURAL ORGANIZATION, FALL RIVER, MASS.

Ms. SOARES. I work with the immigrant community in Fall River and I can really see that this bill which I have read is going to help them, because they suffer from inadequate housing, inadequate health care. You name it. And I really hope that this bill will be passed and I strongly believe that it is going to help them.

Chairman GONZALEZ. Ms. Soares, you are the director of the Portuguese Youth Cultural Organization of Fall River?

Ms. SOARES. Yes.

Chairman GONZALEZ. Do you have an estimate of the number of members and what age group are we speaking of here?

Ms. SOARES. Well, we work with all ages and we have, I would say, 2,000-some clients that walk into our social service center in asking for help. I see that housing is one of their main necessities because they pay very high rent for inadequate apartments, very, very poor conditions.

Chairman GONZALEZ. Well, you know, if you were in San Antonio, of course Portuguese is so related to Spanish you just change that "o" to an "a" and we have an Hispanic name. In other words, your cultural organization, is that a voluntarily funded organization?

Ms. SOARES. Well, part of it is funded by community development.

Mr. FRANK. Let me ask Ms. Soares, I think you heard Mr. Sullivan, what is your view of homeownership? I pose that question as I did to him because there are people in Washington who tell us we are making too much of homeownership, that it is just another investment and we shouldn't be trying to subsidize that as opposed to any other investment. Do you think it makes a difference whether people have a chance to own their home rather than to be renting for their whole life?

Ms. SOARES. Well, I can see by my experience that most of the people would like to have their own home instead of paying so much money for rent, for very poor and inadequate apartments.

Mr. FRANK. So you find homeownership in and of itself, I mean, the same physical conditions, but if you own it, it does add a little extra?

Ms. SOARES. Yes.

Mr. FRANK. I appreciate that very much. What is likely to happen if we just continue with the current situation and don't make any changes in public policy?

Ms. SOARES. Well, it would be very bad because the rents are very high and conditions are very poor and things we get, things will get worse and worse, so I really hope that your bill will pass.

Chairman GONZALEZ. Mr. McMurray, do you have any questions?

Mr. MCMURRAY. Yes, Mr. Chairman. Ms. Soares, is it correct that the Portuguese are the largest immigrant group in the Fall River area?

Ms. SOARES. Yes, 65 percent.

Mr. MCMURRAY. And mainly from Portugal, the Azores?

Ms. SOARES. Mainly from the Azores.

Mr. MCMURRAY. When they arrive here, where is their first living accomodation? Do they join relatives and all live in the same rental unit or where do they go?

Ms. SOARES. Usually, to start, they live with their relatives because they cannot afford to pay an apartment until they find a job. Once they find a job, it is easy for them to rent an apartment. Of course, they always try to save, as you know, they are very hard workers, but again, you know especially now with this very high interest rate, there is no way they can buy a home.

Mr. MCMURRAY. There is enough rental housing in this area to take care of the people arriving?

Ms. SOARES. Not really.

Chairman GONZALEZ. Thank you very much, Ms. Soares, we appreciate your interest and your contribution. Thank you for your support of the legislation.

Mr. FRANK. I just want to thank you, Mr. Chairman, and thank the other participants. Just to reiterate that people should understand that these kinds of specific pieces of testimony we get I think will be helpful. I am just struck as I think about what it was like 6 months ago in Washington and what it is today. This kind of testimony, I'm now fairly confident that we will have at least a significant amount of material to package this bill.

Chairman GONZALEZ. I want to compliment you very much and thank you for arranging for this and also may I acknowledge what I should have done at the outset, and that is our gratitude to the Bristol Community College for the hospitality and generosity in affording us a place. Barney, I don't know what your time constrictions are, but I'm OK at this point and I was just wondering if perhaps any member, citizens of the audience who has a desire to either make a statement or observation or ask a question, we'd be glad to recognize you if any one of you has one. Why don't you step to the witness table and for the record, give the reporter your name, identify yourself.

Ms. QUINTAL. I am a resident of Fall River and a student at Bristol Community College. My question is, this bill that you are proposing, how much of a chance do you feel that it will have of being passed?

Mr. FRANK. Let me just say as part of the overall package, I think we have a better chance of getting something like this through. Chairman Gonzalez surely honored us by coming here as subcommittee chairman on housing of the U.S. House of Repre-

sentatives and we have been doing a lot of work in a bipartisan basis. There's been support from Democrats and Republicans around this concept of doing something in the housing area, so in part as a result of hearings like this, I think we have a very real chance that something like this will happen.

Ms. QUINTAL. At this point, with President Reagan's budget cuts, it seems like it is hitting in every area and more so in social areas. You know, it seems like it is almost an impossibility to pass something that is beneficial to the poor to get through.

Chairman GONZALEZ. You are right. The outlook, of course, looking at it baldly and the surface looks dim and pessimistic. However, you know, I have reached that point, Barney is a lot younger than I am, that it doesn't mean that I am smarter, but I mean I am older and I have contended with many situations. Perhaps in an environment and in a context far more pessimistic and yet have savored the taste of triumph after defeat in this great society of ours. In other words, unless something has happened which I don't think has, and that is that the nature and the character of our people has changed, and I don't think it has, everywhere I have gone I see not a change, but reaffirmation of what I have always felt I would witness truthfully as to the nature and identity of just the plain, average American. I don't care whether it is Texas or Massachusetts or California. I know this year Congress has to make a decision. It is true that it can make a decision that is negative, but it cannot escape what maybe we could, and it could last year. This year it is a little bit different.

Now, politically and legislatively, yes, the forces seem to be pretty much the same because we have a confrontation with a budgetary mandate from the secular branch of the Government that, as you say, properly makes it look futile. On the other hand, this year, it is different because whereas last year we had other combinations that outside of the context of the legislative world is very well understood. Procedures, for instance, that we called reconciliation process and alike. I don't think they are going to constrict us this year. So the solid front, for example, last year that the administrative party supporters say in the Senate had solid this year, there's been a change in that.

Now, our task is even if it would not be Mr. Reagan or this administration with the majority of our colleauges, and that is to reach their level of consciousness as to the dimensions of this great issue, regardless of the psychological or ideological views and regardless of the nature of the particular party label of the administration in power. That is exactly what we are here about and that is the unquestionable demands coming from the people for the basic elements of minimal standards that have been traditional to this country. This is what is involved now so that I feel, for example, that we could come back, in answer to your question, after the Easter recess and begin very expeditiously the markup. This is the session in which the committee members go in and get the bill and go line-by-line and over amendments, changes, and then ratification. At this point I think one big thing which I don't think we could have done last year is come in with a version of our basic bill that we are traveling on right now on the Housing and Urban Development Act of 1982 with everybody assembled on the majority

side cosponsoring this, so then also there is an awareness that now we transcend some issues beyond the purely political where you have a demand based on strictly party loyalty. So I see a different picture. I think that a lot is going to depend on our skills, to continue to get together and offer a viable program that can come in within the budgetary limits as thus far we have at this point. Then the question of processing it and going through those lengthy processes, but as far as we are concerned, we see no reason why we can't have the full House considering this in May, and then, of course, it is up to the other party to give their input. We can't help what will happen there but at least we have got something that will respond to what's unequivocally the need.

Let me ask you this: your last name, Quintal, is that Portuguese or Spanish?

Ms. QUINTAL. Portuguese.

Chairman GONZALEZ. The same thing, and incidentally, that could pass for Spanish as well.

Ms. QUINTAL. That is my married name. My maiden name is Pavao, which is more Portuguese, but in respect to the housing bill, I think it is a very well needed bill. You can look at the real estate market. I have friends that are agents and brokers who are in a desperate financial crisis at this point and without some sort of help, whether it be that bill or be some sort of economic change where the interest rates come down, something has to be done and I'm glad to see that people, our Government is taking into consideration that the people are in desperate need without having like Mr. Sullivan said, going back into the 1960's having riots and having, you know, demonstrations to prove that we need these things. I would hate to have to go through that again. I've been through that and I don't want to go through that again.

Mr. FRANK. Thank you.

Chairman GONZALEZ. One question here, you are very young, you are a student here at Bristol?

Ms. QUINTAL. I am, yes, I am returning.

Chairman GONZALEZ. You are married?

Ms. QUINTAL. Divorced.

Chairman GONZALEZ. The reason why I ask, I was wondering how you are housed.

Ms. QUINTAL. I rent from my parents.

Chairman GONZALEZ. You are in with your family?

Ms. QUINTAL. Next door, yes. It's a difficult situation in Fall River especially and the apartment houses are not what you could call good.

Chairman GONZALEZ. Acceptable.

Mr. FRANK. Mr. Sullivan, did you want one further word?

Mr. SULLIVAN. There was only one point I wanted to bring out, as you kept referring to similarities between the Portuguese and Spanish. Again, you were dealing with a person engendered from Fall River. The Portuguese are not counted as Hispanics, but according to Webster's Unabridged Dictionary, "Hispanic" is anyone from the Iberian Peninsula. That includes Portugal, so I think the Federal Government is entirely wrong in not counting the Portuguese in terms of their allocation formulas and their entitlements, because all of Bristol County is inundated and as some of these

people pointed out, 65 percent Portuguese and I think as long as it is Hispanic, then the Portuguese should be included in at least the entitlement programs, unless somebody wants to go out and argue with Webster's Unabridged Dictionary.

Chairman GONZALEZ. The subcommittee stands in recess, subject to the call of the Chair.

[Whereupon, at 1:30 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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